論文

Japanese ownership in international joint ventures(IJVs) in Thailand

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Abstract

This research investigates the investment rate as an indication of ownership of international joint ventures (IJVs) between Japanese and Thai companies established in 1987, and their variation after establishment of the IJVs. The results of the analysis reveal that variation during a certain period affects IJVs' longevity, morality risks, and transformation to wholly owned subsidiaries (WOS).

Keywords: International joint ventures, ownership, longevity, globalization

1. Introduction

Recently, the difficultly of continuous company growth through only conventional managements skills and resources has increased. As a result, surviving drastic environmental changes, such as globalization, has also become challenging. Thus, developing international strategies is an essential requirement for new companies. Business management resources, such as speedy business judgment, owned advanced technologies, or expertise, that sustain strategic globalization are consequently required. However, companies' business management resources have natural limits, requiring them to obtain resources they do not possess from other parties instead. Hence, since the 1980s, strategic alliances and international joint ventures (IJVs), such as complementation, have been the focus for sustaining business management resources.

International business studies, such as Stopford and Wells (1972), have suggested that IJVs are one effective investment form in foreign markets. Multi-national companies (MNCs) face difficulties on entering foreign markets because their resources in relation to local markets—such as market knowledge and local operation capability—are limited. Such resources can be obtained if IJVs are arranged with local companies. Furthermore, from the perspective of time and expense, developing such technologies, when they are unavailable, becomes arduous. Conversely, sourcing necessary technologies from partners saves both expenses and time. Thus, the establishment of IJVs helps complement business management resources.

Additionally, companies may have to apply for legal regulations against foreign investment in the local market. They may also have to find a local partner who will assist license acquisitions. Foreign companies often encounter license or incentive acquisition difficulties in such markets. Without local connections, they would have to independently establish necessary distribution channels. However, if their local partner already has related resources, they can access them through IJVs. Aside from the business management or technology resources related to the local market, they must also consider investment risks arising from establishing the IJV. However, it may ease and disperse possible risks, thus motivating MNCs.

However, the joint management of IJVs also has negative aspects. An IJV is operated by two more companies with different backgrounds. Conflicts related to profits, management policies, and miscommunication, among other issues, may be easily caused, compared to wholly owned subsidiary (WOSs). Such conflicts may trigger dissolution or withdrawal of IJVs. Furthermore, IJVs generally have poor longevity too. In the Trojan horse hypothesis, with respect to a Japanese and Western collaboration, numerous researchers find that IJVs have shorter lifespans. When an IJV is established, the extent to which each partner owns the partnership becomes an important factor. Particularly, ownership depends on how much investment ratio each partner obtains, and each partner will want to occupy more investment ratio in order to gain more benefits out of the IJV. Such negotiation is processed based on gentility, though it remains a difficult process for each partner. Like a waterfowl paddling, while the visible upper body seems elegant, the waterfowl paddles at full power under water. We presume that the investment ratio when they enter into the market, and its variation, may influence IJV relationships, the positioning of each partner, and so on after a while. More importantly, we presume that the investment rate at the first stage may affect the longevity and continuity of IJVs.

Previous studies on Japanese joint venture behavior mainly focused on collaboration with Western partners, but rarely on collaboration with non-Western partners. In IJVs between Japanese and Western firms, the two firms are often competitors. They compete to acquire their partner's knowledge. Thus, short-term oriented partnership behavior was emphasized because of such inter-partner competitive relationships. Therefore, we must explore Japanese joint venture behavior in collaboration with the firms of developing countries. Since operating local businesses requires foreign capital, such ventures are generally important investment options for Japanese firms.

Due to Thailand's increasing importance in Japanese investments, we focus on Japanese joint ventures there. Thailand is a representative country among the ASEAN countries, which have been recognized for their remarkable economic growth over the last few decades. In addition, Thailand has been recognized as a special market for China-plus-one among ASEAN countries. Its business infrastructure is organized relatively efficiently. Furthermore, Japanese firms have functioned in its market since the 1960s (For example, Thailand has become a critical market for the sales and production of Japanese automobile makers).

We also show the results of our pilot study that analyzed ownership changes of Japanese manufacturing in joint ventures since 1987. We used data from *Kaigai-Shinshutsu-Kigyo-Soran (Japanese Multinationals, Facts and Figures)* published by Toyo-Keizai-Shinpo-Sha for this purpose.

2. Literature Review

2.1 Fragility and continuity of IJVs

THH studies, such as Ishii (2009), have suggested that IJVs are generally more fragile than wholly owned subsidiaries (WOS) in terms of continuity. Unquestionably, it is understandable that IJVs managed jointly by individual partners have less longevity than WOS. As mentioned, IJVs tends to have lower longevity. Since IJVs management is always accompanied by adjustment of interests and occurrence of conflicts, IJVs have fragile continuity.

Juhn (2000) also noted that IJVs have less longevity compared to WOS by a Japanese company. Often, IJVs also dissolved earlier than their parent company expected. The research by Juhn (2000) was related to IJVs organized by Japanese and Korean companies. Furthermore, the research indicated that 45.2% of the IJVs that entered Korea in 1969 withdrew from the market by 1997. Hennart and Zeng (2002) noted that IJVs organized by parent companies from different countries tended to encounter larger conflicts, and thus, their continuity was also shorter. As indicated, the features of the ownership allocated by IJVs' parent companies may cause conflicts. Moreover, it could lead to dissolution of the IJV. In addition, when complementary relationship and mutual profit between parent companies are not maintained, it becomes difficult for the parent companies to continue the IJV. Harrigan (1998) and Hennart and Zeng (2002) noted in their research on international businesses that IJV had less longevity compared to other forms of organization.

Previous studies, such as Reich and Mankin (1986) and Hamel (1991), suggested that Japanese firms tended to terminate joint ventures with Western firms. They argued that such short-term oriented partnerships are caused by the Japanese firms' motive to acquire knowledge of foreign market and technology from their Western joint venture partners. Japanese firms also ended joint ventures shortly after effectively and efficiently learning from their Western partners. This short-term Trojan Horse-oriented partnership behavior exhibited by Japanese firms was also tested in Ishii (2009) and Ishii and Hennart (2010).

However, previous studies on Japanese joint venture behavior mainly focused on collaboration with Western partners; they rarely dealt with non-Western partners. In IJVs between Japanese and Western firms, the two firms are often competitors; they compete to acquire their partner's knowledge. Due to this inter-partner competitive relationship, short-term oriented partnership behavior was emphasized more. However, we must explore Japanese joint venture behavior with respect to collaboration with developing countries. Generally, such Japanese joint ventures with local firms in developing countries are important investment options for Japanese firms because operating local businesses requires foreign capital.

2.2 Investment rate of IJVs

Muramatsu (1991) noted that investments by parent companies into IJV mean that the parents companies possess their ownership of the IJV.

Therefore, the parent company tends to gain more investing ratio than the foreign partner in order to maintain the IJV initiative. Encarnation (1999) pointed out that the logic for majority ownership and undisputed control is often compelling; MNCs create and sustain a competitive advantage through the skillful management of tangible and intangible assets in technology, marketing, and organization. Likewise, maintaining their status as major investment holders can be advantageous for utilizing IJV assets. Therefore, this leads to increased tendency of claiming more investing ratio than foreign partners.

Dhanaraj and Beamish (2004) noted that mortality risk averages about 40% at 5% equity levels (i.e., overseas subsidiaries with 5% foreign equity levels have 40% probability of exit in a year, controlling for all other effects). This value drops steeply to 12% when the main Japanese parent owns around 50% equity. Beyond this level, the drop-in mortality is more gradual, stabilizing at approximately 8% mortality risk when the main Japanese parent retains an equity level of 80% and above.

Juhn (2000) noted that equity level held by the Japanese parent company did not influence IJVs' longevity. In fact, human factors, such as presence of Japanese expatriate employees at the IJV, may strongly influence it. The study also noted that, in Japanese-Korean IJVs, the maintenance factor of IJVs drops drastically during five to 10 years after the establishment of the IJVs. This indicated that mortality risk is the highest between five and 10 years after the IJV was established.

As mentioned, the period between five and 10 years after the IJV is established is the most critical period for it. In our review of literature on investment rates, we find descriptions of different views. However, in "Japanese and Western companies" and "Japanese and Asian companies" combinations, we must consider different factors relevant to each type.

As indicated earlier, "Japanese and Western companies" often tend to be competitors. On the other hand, with "Japanese and Asian companies," most Japanese companies are in a position that allows them to transfer their technologies to local companies. Thus, it is important to note that the objectives and positions of IJVs differ based on their conditions.

3. Overview of IJVs in Thailand

We herewith provide an overview of Japanese IJVs with Thai companies in Thailand as of 2015. We used IJV data from the Kaigai-Shinshutsu-Kigyo-Soran (Japanese Multinationals, Facts and Figures) 2016 edition. As shown in Figure 3.1, the total number of IJVs is 559. We categorized them into Sales, Chemical, Service, Machine, Metal, Food, Textile, Electronics, Finance, Automobile, and Others to see any features. We find the most IJVs in Sales (112 IJVs), followed by Chemical (110IJVs) and Service (84IJVs). The automobile category only contained one IJV, though most Japanese automobile companies had already entered the Thai market in early 1960s. Reviewing for reference, two IJVs were established in 1950 that still exist; the most number of IJVs that still exist in the Thai market is 204, and they entered in 1990s.

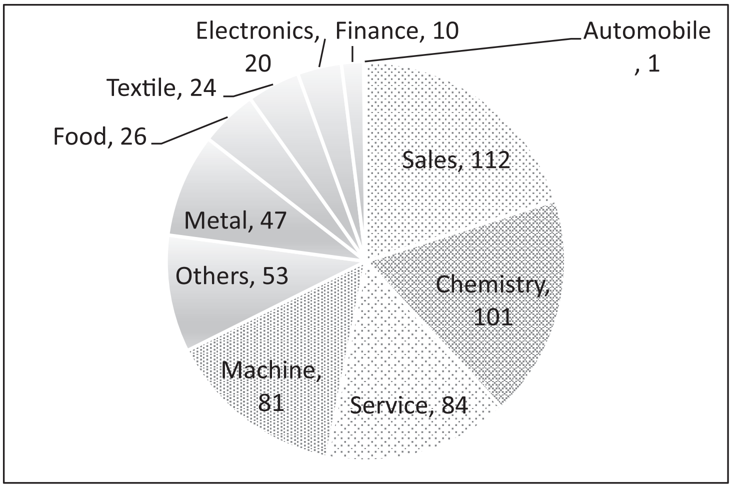

Figure 3.1 Japanese IJVs in Thailand (2015)

Figure 3.2 indicates the number of partners in the IJV—two companies or more than three companies for each category. The categories are the same as Figure 3.1. The highest rate of IJV with two partners is Chemical with 44%. The highest rate of IJV with three or more partners is Finance with 90%, followed by Metal and Service with 70% each. Overall, the number of IJVs with three or more partners exceeds those with only one or two partners. As mentioned earlier, we did not refer as Automobile data was limited to only one type.

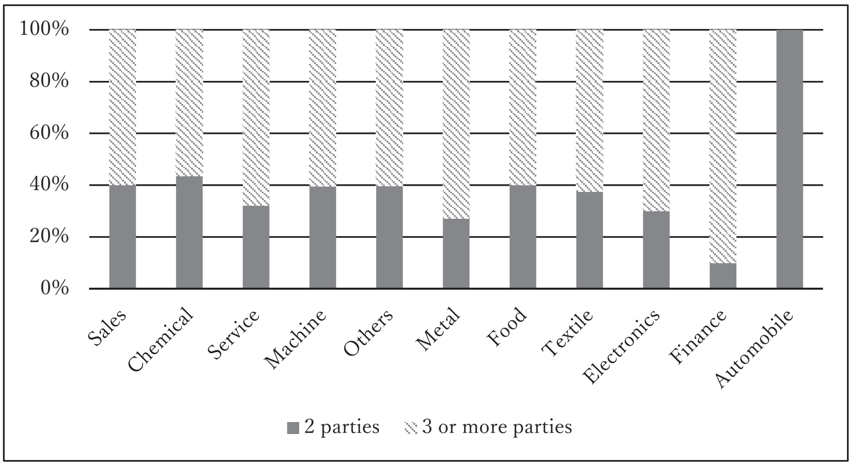

Figure 3.2 IJVs in each category with two parties or three or more parties

As shown in Figure 3.2, we reviewed manufacturers and assemblers, and then, categorized it into Apparatus and Assembly Industries. The number of IJVs that belong to Assembly Industry is 185, while 115 belong to Apparatus Industry. Furthermore, approximately 60% of the IJVs have three or more partners, while approximately 40% have two partners. We found no specific difference between either. Among the combinations, Apparatus Industry and three or more partners are dominant.

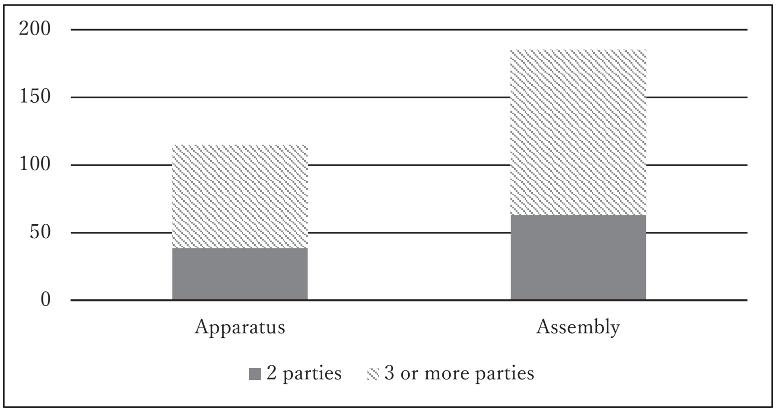

Figure 3.3 Apparatus and assembly industry

4. Pilot study

For our pilot study on IJVs in Thailand, we focused on IJVs established in 1987 specified in the Kaigai-Shinshutsu-Kigyo-Soran (Japanese Multinationals, Facts and Figures) 2016 edition. We selected the 1987 edition because the definition of foreign companies became stable from this point onwards. It thus enables us to analyze the investment rate of IJVS.

First, we analyzed investment rate as an indication of ownership of each IJV. We reviewed the overview of the data, and found that the number of IJVs is 16, with two and three or more partners. In case of three or more partners, we applied the investment rate of the leading company between them. We reviewed the 16 IJVs based on variation of investment rate, closure, and conversion to WOS after establishing them chronologically. As shown in Table 4.1, six IJVs holding minor investment rate became major holders. We then reviewed this data in detail. The under-50% investment rate of five IJVs increased from 95% to 100% from 1987 to 2015. The under-50% investment rate of one IJV increased from 50.1% to 94.9% from 1987 to 2015. Similarly, five IJVs holding under 50% investment rate as of 1987 remained minor holders as of 2015. Two IJVs holding under 50%

investment rate decreased their investment rate down to 0–5.0%. One IJV holding 50% investment rate remained in the same position as of 2015. Two IJVs holding 50.1–80% investment rate decreased their rate down to 0–5%.

Table 4.1 Variation of investment rate of IJV (from 1987 to 2015)

		2015					
		0-5.0%	5.1-49.9%	50%	50.1-94.9%	95-100%	Total
1987	0-49.9%	2	5		1	5	13
	50%	1					1
	50.1-80%	2					2
	Total	5	5		1	5	16

Table 4.2 indicates variation of investment rate of 16 IJVs from 1987 to 2015 more precisely. Ten IJVs out of 16 increased their investment rate, while six of them evolved from minor holders to major holders. This indicates that, in spite of beginning as minority holders in the investment rate, IJVs tend to gain more rate rather than their partners.

Table 4.2 Variation of investment rate of IJV (from 1987 to 2015)

Variation of ownership	Number of firms
Minority to Majority	6
Unchanged	1
Minority (increase)	4
Minority (decrease)	3
Majority to zero	2

Juhn (2000) pointed out in his research on Japanese-Korean IJVs that the maintenance factor of IJV drops drastically during 5–10 years after establishment. According to the paper, this indicates that IJVs' mortality risk becomes the highest between five and 10 years after the IJV was established. We reviewed the data we applied. Table 4.3 indicates the variation of investment rate of IJVs between 1992 and 1997. Table 4.4 is the summary of Table 4.3. Eleven IJVs (minor investment holder) remained minor investment holders. Two IJVs became major investment rate holders from first being minor holders.

Table 4.3 Variation of investment rate of IJV (from 1992 to 1997)

		From 1992 to 1997					
		0–5.0%	5.1–49.9%	50%	50.1–94.9%	95–100%	Total
1987	0–5.0%						
	5.1–49.9%		11			2	13
	50%			1			1
	50.1–94.9%	1					1
	95–100%					1	1
	Total	1	11	1		3	16

Table 4.4 Variation of investment rate of IJV (from 1992 to 1997)

Variation of ownership	Number of firms
Minority to Majority	5
Unchanged (Minority)	10
Unchanged (Even)	1

We focused on IJVs whose investment rate did not change from 1992 to 1997. Keeping continuity in mind, we investigated what happened to those IJVs later. Eleven IJVs did not change their investment rate. Six IJVs, among the 11, still exist as of 2015. Approximately 55% of IJVs did not change their investment rate as of 2015. On the other hand, five IJVs, whose investment rate changed from 1992 to 1997, did not exist as of 2015; they either left the local market or became WOS, thus terminating their partnership. We noted that the 5–10-year period after establishment was critical. If there is no change in the investment rate during this period, the IJV may continue even later. If the IJV partners would like to maintain the partnership with counterparts, they should survive the critical period.

5. Conclusion

We investigated the variation of investment rate of IJVs in two different periods—from 1987 to 2015 covering all period, and the other period focusing only between 1992 and 1997—in order to review any variation and observe what happened in IJVs afterward. Although, the sample data was limited, we clarified that the 5–10-year period was a critical period for IJVs. As mentioned earlier, if there is any change in the investment rate of IJVs during this period, it may cause a mortality risk that triggers the termination of partnership. On the other hand, if there is no variation in the investment rate of IJVs, relatively more IJVs are able to survive and exist even later.

As earlier specified, the continuity of IJVs is sometimes taken to be its honeymoon period. During the initial years, both partners put in the effort to establish a good partnership. However, during the 5–10 years after the honeymoon period, like the period of lassitude, variations in the partnership are caused easily. It thus becomes a critical period for both partners. Likewise, we presume that after passing the critical period, the survival rate of IJVs increases. In this research, we focused on the period from 5–10 years, but there may be another critical period for IJVs, such as a second honeymoon, period of lassitude, and so on. Furthermore, we understand that there may be variations depending on the basic year, which requires investigating other years' data.

Note

1) Trojan Horse Hypothesis-oriented (THH) partnership behavior of Japanese firms was tested by Ishii (2009) and Ishii and Hennart (2010). Some researchers do address that Japanese firms tend to end joint ventures shortly after learning effectively and efficiently from their Western partners.

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